Department of Justice

FOR IMMEDIATE RELEASE
MONDAY, MARCH 9, 1998

AT
(202) 616-2771
TDD (202) 514-1888

JUSTICE DEPARTMENT REQUIRES ENOVA CORPORATION TO DIVEST ELECTRICITY PLANTS BEFORE APPROVING ITS $6 BILLION MERGER WITH PACIFIC ENTERPRISES

The Department's First Challenge of a Merger between a Gas and an Electric Utility

WASHINGTON, D.C. -- Enova Corporation has agreed to sell its two largest electric power plants in order to complete its $6 billion merger with Pacific Enterprises, under a settlement reached today with the Department of Justice. Without the sale, the merger of Pacific's natural gas pipeline with Enova's electric power business would have likely resulted in higher electricity prices to California consumers.

This is the Department's first challenge to a merger between a gas and an electric utility, and comes at a time when California is restructuring its electric power industry to allow for more competition.

"Had we not separated the two power plants from the monopoly pipeline, California consumers ultimately would have suffered from higher electricity prices," said Joel I. Klein, Assistant Attorney General in charge of the Antitrust Division. "As California and other states deregulate their electric power industries, vigilant antitrust enforcement is vital to protect and preserve emerging competition. When we see competitive concerns, we will seek structural relief."

Natural gas is an important input fuel for generating electric power in many parts of the country. In California, power plants that use natural gas for electricity generation--or gas-fired electric plants--currently depend entirely upon Pacific to either transport or store the natural gas they need.

The Department filed suit in U.S. District Court in Washington, D.C. to block the merger. At the same time, a proposed settlement was filed that, if entered by the court, will settle the lawsuit.

According to the complaint, the merger would have given the combined Pacific/Enova the incentive to use its natural gas monopoly to withhold gas or gas transportation from competing gas-fired electric plants. Gas-fired plants are the most costly to operate, and they set the price for all electricity sold during times like the summer when electricity demand is at its highest. The complaint alleges that Pacific/Enova will be able to raise the costs of certain competing gas-fired plants by restricting their access to natural gas. Because the price of electricity will soon be dependant upon the highest priced producer in the California Power Exchange, this would cause electricity prices to California consumers to go up. The complaint further alleges that Pacific/Enova's incentive to raise costs to certain competing firms arises out of the fact that it is a low-cost producer of electricity and would therefore stand to profit a great deal from any increase in the price of electricity.

The settlement requires Enova to divest its largest low-cost electricity plants. Once this is accomplished, the incentives the merger creates to raise electricity prices would be eliminated. Enova is also required to provide notice to and obtain the approval of the Department should it wish to acquire or manage certain California electric power facilities in the future.

Enova is a California corporation headquartered in San Diego, California. It is the parent company of San Diego Gas and Electric Company, which is the third largest provider of electricity in southern California. Enova's revenues from the sale of electricity for the year ending December 1996 were approximately $1.6 billion.

Pacific, a natural gas utility also headquartered in San Diego, provides natural gas transmission and storage services to customers throughout California, including many electric power plants operated by Enova's competitors.

As required by the Antitrust Procedures and Penalties Act, the proposed consent decree, along with the Department's competitive impact statement, will be published in the Federal Register. Any person may submit comments on the proposed decree within sixty days to Roger Fones, Chief, Transportation, Energy and Agriculture Section, Antitrust Division, U.S. Department of Justice, 325 7th Street, N.W., Suite 500, Washington, D.C. 20303-0001. At the conclusion of the comment period, the Court may enter the final judgment upon finding, following review of the comments received, that it serves the public interest.

###

98-104